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BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
RENZ D. JENNINGS
COMMISSIONER

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IN THE MATTER OF THE GENERIC
INVESTIGATION OF THE DEVELOPMENT OF A
RENEWABLE PORTFOLIO STANDARD AS A
POTENTIAL PART OF THE RETAIL ELECTRIC
COMPETITION RULES.

DOCKET NO. E-00000A-99-0205

PROCEDURAL ORDER**BY THE COMMISSION:**

On January 11, 1999, the Arizona Corporation Commission ("Commission") issued Decision No. 61311 which stayed the effectiveness of A.A.C. R14-2-1601 et seq. ("Rules" or "Electric Competition Rules") and related decisions, and ordered the Hearing Division to issue a Procedural Order to begin consideration of further comment and actions in the docket. The Commission in Decision No. 61634, dated April 23, 1999 amended the Electric Competition Rules which included the elimination of the Solar Portfolio Standard (R14-2-1609).

On April 8, 1999, Commissioner Kunasek filed a copy of a new proposed rule entitled Solar and Environmentally - Friendly Portfolio Standard¹ ("New Portfolio Standard" or "New Rule 1609"). On May 7, 1999, the Utilities Division Staff ("Staff") of the Commission filed a list of recommended questions regarding the New Rule 1609. Staff requested interested parties to file comments by May 21, 1999 concerning the appropriateness of its recommended questions. Subsequently, on May 21, 1999, Arizona Public Service Company, Tucson Electric Power Company, Arizona Electric Power Cooperative, Inc., K.R. Saline and Associates, Center for Energy and Economic Development, Southwest Windpower Inc. and the City of Tucson² filed comments regarding Staffs request.

Based on the above, we find it appropriate to schedule a public comment hearing regarding the New Portfolio Standard commencing on September 16, 1999 along with an evidentiary hearing

¹ See Attachment No. 1
² Filed on May 28, 1999.

1 regarding any rate impact or cost-benefit analysis.

2 IT IS THEREFORE ORDERED that a public comment hearing along with an evidentiary
3 hearing regarding the New Portfolio Standard shall commence at 10:00 a.m. on September 16, 1999
4 at the Commission's offices, 1200 W. Washington Street, Phoenix, Arizona 85007.

5 IT IS FURTHER ORDERED that a pre-hearing conference shall be held at 1:30 p.m. on
6 September 13, 1999, at the Commissions offices in Phoenix.

7 IT IS FURTHER ORDERED that by 4:00 p.m. on July 30, 1999, parties shall provide
8 responses to the following questions:

- 9 1.A. Should there be an Environmental Standard in Arizona and why?
- 10 1B. If so, what should be the objectives of an Environmental Standard and who should
- 11 bear the costs of the standard and how should those costs be collected?
- 12 2. Will the proposed new Portfolio Standard meet the desired objectives or would you
- 13 propose an alternative mechanism?
- 14 3. Are you supportive of the proposed Portfolio Standard and, if not, describe any
- 15 modifications that you would make to the proposed Portfolio Standard (including
- 16 responses to 6 below) or describe your Company's proposed alternative mechanism.
- 17 4. If you are proposing an alternative to the proposed Standard, include a detailed
- 18 description of: (1) technologies to be included; (2) timing; (3) any incentives; (4) cost
- 19 projection of the alternative over the life of the alternative; (5) impact on customer
- 20 rates; (6) all major assumptions for the proposed alternative.
- 21 5.A. Should the Standard be imposed only on sales in the competitive market?
- 22 5.B. Instead of implementing a Standard as part of the Retail Electric Competition Rules,
- 23 should the market (the retail consumers themselves) dictate the amount of "green"
- 24 power to include in competitive energy choices? Should the Commission encourages
- 25 Energy Service Providers to *offer* programs, instead of mandating rigid targets,
- 26 allowing the market for such products to develop naturally?
- 27 5.C. Would it be appropriate to include recovery of costs of renewable systems in a
- 28 systems benefits charge rather than the general cost/rate structure?
6. Please comment on the following aspects of the proposed new Portfolio Standard:
 - 6.a. New section N allows for "environmentally-friendly renewable electricity technologies" other than solar. Which technologies should be included in this subsection? Would those technologies be available in Arizona or work in

Arizona?

- 6.b. In subsections A and B of the proposed Portfolio Standard, a schedule of portfolio percentages is defined. Is the size of portfolio percentage and timing of increases a reasonable strategy to be included in the competition rules? What alternatives would you propose and why?
- 6.c. The proposed Portfolio Standard includes incentives for in-state manufacturing and in-state installation of solar and other environmentally-friendly technologies. Are those incentives appropriate and substantial enough to have a positive impact on Arizona's economy and on Arizona economic development? What alternatives would you propose and why?
- 6.d. What long-term benefits will the proposed Portfolio Standard have on the State of Arizona and its residents? Specific items to be addressed include job creation, maintenance of energy dollars in the local economy, load diversification, and pollution prevention.
- 6.e. What would the impact be on an average competitive (residential and commercial) customer's monthly bill (assume 1,000 kWh/month usage for residential) of the proposed Portfolio Standard? (Please state assumptions, including technology costs).
- 6.f. Section 1609.B.2 provides for determination of a cost/benefit point in 2001 prior to an increase in the percentage in 2002. Is it appropriate to determine the cost/benefits point during this proceeding (and the corresponding impact on customers) or in 2001? Should the Commission cap the impact that the Portfolio Standard may have on customers?
- 6.g. Section 1609.I of the proposed Portfolio Standard allows for the "banking" or sale of excess solar kWh. This could create a trading program, similar to the EPA's sulfur dioxide trading program. Do you have any suggestions about creating a credit trading or banking program?
- 6.h. Section 1609.F provides for penalties if ESPs fail to meet the proposed Portfolio Standard. Are there additional provisions needed to require ESPs to issue RFPs or negotiate contracts in a timely fashion rather than merely paying the penalty?
7. Should the proposed standard or any alternative that you are proposing apply to Standard Offer Customers in 2001? If yes, should the standard or alternative as applied to Standard Offer be energy driven (kWh) or dollar driven to limit or cap the impact on Standard Offer Customers? What would the impact be on an average residential and commercial customer's monthly bill? (Please state assumptions, including technology costs.) What mechanism should the Commission put in place to recover the costs from Standard Offer Customers?
8. Other relevant comments?

IT IS FURTHER ORDERED that any answers to rate impact or cost-benefit analysis must be filed as testimony with a detailed description/analysis to support the rate and cost projections.

IT IS FURTHER ORDERED that rebuttal testimony/comments shall be filed on or before 4:00 p.m. on August 30, 1999.

DATED this 16th day of June, 1999.


JERRY L. RUDIBAUGH
CHIEF HEARING OFFICER

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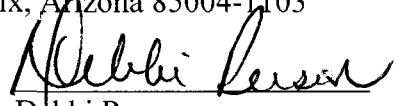
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By: 
Debbi Person
Secretary to Jerry Rudibaugh

ATTACHMENT NO. 1

The following is for discussion purposes only:

R14-2-1609. Reserve for Solar and Environmentally-Friendly Renewable Portfolio Standard

B. The portfolio percentage shall increase after December 31, 2000.

1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

| <u>YEAR</u> | <u>PORTFOLIO PERCENTAGE</u> |
|-------------|-----------------------------|
| 2001 | .4 % |
| 2002 | .5 % |
| 2003 | .6 % |
| 2004 | .8 % |
| 2005-2012 | 1.0 % |

2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2002, only if the cost of solar electricity has declined to a Commission-approved cost/benefit point. The Director, Utilities Division shall establish, not later than January 1, 2001, a Solar Electricity Cost Evaluation Working Group to make recommendations to the Commission of an acceptable solar electricity cost/benefit point or solar kWh cost impact cap that the Commission could use as criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than December 31, 2001.

3. Add two new subsections:

M. An Electric Service Provider shall be entitled to meet up to 20% of the portfolio requirement with solar water heating systems purchased by the Electric Service Provider for use by its customers, or purchased by its customers and paid for by the Electric Service Provider through bill credits or other similar mechanisms. The solar water heaters must replace or supplement the use of electric water heaters for residential, commercial, or industrial water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater. Solar water heating systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1609 D.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1609 D.2.

N. An Electric Service Provider shall be entitled to meet up to 10% of the portfolio requirement with electricity produced by environmentally-friendly renewable electricity technologies approved by the Commission after a hearing. Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1609 D.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1609 D.2.